

Inquiry Concerning the)
 Commission's Policy on) Docket No. PL98-5-005
 Independent System Operators)

COMMENTS OF THE
 WASHINGTON DEPARTMENT of COMMUNITY,
 TRADE and ECONOMIC DEVELOPMENT
 ENERGY POLICY GROUP

The Washington Department of Community, Trade and Economic Development, Energy Policy Group (CTED), is pleased to offer these comments to the Commission regarding the formation of an Independent System Operator in the Pacific Northwest. The CTED Energy Policy Group provides the Governor, Legislature, and others with information, analysis, and expert testimony to facilitate the inclusion of public interest criteria into state, regional, and national energy policy.

In 1996, as part of the Comprehensive Review of the Northwest Energy System, the governors of the four Northwest states called for the voluntary "formation of an IGO, regulated by FERC and including the transmission assets of [the] Bonneville [Power Administration] and the other owners of major transmission assets in the region." In response, the region set out to form IndeGO, a proposed independent system operator which ultimately encompassed eight states and 21 transmission-owning utilities. CTED staff participated actively in several of the working groups that produced the initial IndeGO proposal, and submitted [detailed comments](#) on the proposal, which are attached for your convenience.

The IndeGO negotiations ultimately failed to produce a broadly acceptable proposal. There is a lack of consensus in the region on the need for and benefits of major transmission system reform and the cost-shifting associated with the IndeGO proposal presented a formidable barrier to participation for many utilities.

Nevertheless, the failure of IndeGO to form has not halted transmission restructuring activities in the region. A number of parties have signed a memorandum of understanding to form an Independent Grid Scheduler, the scope of which is as yet unclear. Regional organizations such as the Western Systems Coordinating Council and the Regional Transmission Associations (WRTA and NRTA) continue their important work sorting out the immediate commercial and reliability issues presented by the rapidly changing technological and institutional picture. And Governor Locke has recommended that Bonneville be enabled to participate in a "competitively neutral and independent grid management system."

One or more new institutions of a regional scope may evolve from this ongoing activity. CTED takes no position regarding the advisability of federal action to hasten the formation of such institutions. Instead, CTED would like to highlight for the Commission a few areas these new institutions should address.

Public involvement in major decisions regarding the planning and operation of the region's transmission system. WRTA and NRTA have solicited the input of state energy agencies and utilities commissions in working groups and as non-voting members of their governing boards. Future transmission organizations are likely to acquire authority beyond that of the RTAs, and participation of state agencies, public interest groups, and other non-utility stakeholders will be crucial. However, if the locus of regulatory activity is moved to Washington, D.C., such participation will be more costly and difficult than ever. The Commission should ensure that future jurisdictional transmission organizations provide the opportunity for state agencies, customers and public interest groups to have substantial input into important regional transmission decisions.

Reliable operation of the transmission system. The Northwest's transmission system is characterized by long lines between remote generation and dispersed load centers, making system stability and voltage support the primary system reliability concerns. As a result, close communication is required between system operators, security coordinators, transmission schedulers, generators, and other users of the transmission system. An entity that combined transmission system scheduling with a security coordinator function and a neutral position in the marketplace would be best positioned to safeguard the reliability of the region's transmission system.

Efficient operation of the system. Efficient operation and expansion of the region's resource requires that meaningful price signals be sent to users of the grid. Establishing a system of tradable transmission rights will ensure that scarce transmission capacity is allocated to the parties that value it most. The market price of such rights would provide an excellent indicator of the scarcity and value of additional capacity across a congested interface. The Western Regional Transmission Association has done a considerable amount of work on a tradable transmission rights concept which is currently being considered by the California ISO. Commission policy should permit the development of a system of tradable transmission rights for the entire Western Interconnection.

Transmission pricing reform, including removal of transmission system rate "pancakes", would also enhance the efficient use of the system. However, the IndeGO proposal foundered on the cost shifts that would have occurred as a result of such reform. CTED encourages exploration of alternatives to grid-wide, postage stamp tariffs that would both avoid unacceptable cost shifting and continue to protect customers in rural areas.

Efficient system expansion. Unlike other regions, the Northwest benefits from a robust transmission system and a surplus of generating capacity. Consequently, the ideal structure of a grid management organization in the Northwest, in which new high-voltage transmission capacity is likely to be built to facilitate economy energy trades rather than to serve load reliably, might differ from that of other regions that wish to encourage investment in new capacity. In particular, efficient system expansion requires that alternatives to expansion of the transmission grid, such as distributed generation and load management, be considered on an equal basis with new transmission capacity.

The traditional, vertically integrated utility can plan its entire system according to least-cost principles; it generally has little incentive to favor one type of project over another. When generation and transmission are unbundled, however, care must be taken to ensure that planning processes continue to point to the least cost solution, particularly in light of the very different risk profiles that merchant generation and rate-based transmission may present. The IndeGO proposal addressed this issue by proposing that new transmission capacity built for economic reasons be financed by the market. Other methods, such as a coordinated system planning process, may also be effective ways to ensure equal treatment of non-transmission alternatives. CTED believes resolution of this issue will be critical for efficient system expansion decisions, keeping costs low for Northwest consumers in the long run.

Equitable treatment of intermittent renewable generation. Intermittent renewable generation technologies, such as solar and wind power, provide emissions-free alternatives to fossil fuel generation. CTED works with a number of Washington State companies to help expand opportunities for the deployment of intermittent renewables. When establishing rules governing access to the nation's transmission system, the Commission should consider the unique needs of the intermittent renewable industry. In particular, transmission rates for generators should reflect actual costs imposed on the system, rather than an arbitrary, distance-based assignment of fixed cost responsibility. Intermittent renewable generators may also require special consideration with regards to scheduling flexibility, bidding protocols, and calculation of ancillary service requirements.

CTED thanks the Commission for the opportunity to provide these comments, and looks forward to working with the Commission and other regional stakeholders to address these and other outstanding transmission issues.